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Pantera Drilling INCOME TRUST

RIG.UN



2006
Annual Report

Pantera's focus on heavy oil has
allowed us to create identity and
differentiation in a competitive market.



- 60% of Pantera's rig fleet a year ago was conventional. By year end 2007 that will increase to 100%.
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- 92%, or \$28.4 million, of Pantera's total revenue in 2006 was derived from the conventional rigs.
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Pantera was incorporated in October 1999 to provide contract drilling services to oil and gas exploration companies operating in the Western Canadian Sedimentary Basin.

Pantera commenced operations with one coil tubing drilling rig (Rig No. 1) and added two additional coil tubing drilling rigs in the spring of 2000 (Rig No.'s 2 and 3).

As a result of a decision to expand operations beyond coil tubing drilling services, in May 2002 Pantera finalized construction of Rig No. 4, its first conventional drilling rig, a 3,000 metre depth capacity stepdown telescopic range III single drilling rig.

In October 2003, Pantera sold its original coil unit from Rig No. 1 and used the remaining ancillary equipment to facilitate the construction of Rig No. 5, a 3,000 metre depth capacity stepdown telescopic double drilling rig.

Four identical 3,400 metre stepdown telescopic double drilling rigs (Rig No.'s 6, 7, 8 and 9) were built between September 2005 and December 2006.

Pantera currently operates eight drilling rigs, Rig No.'s 2 through 9, consisting of six stepdown telescopic double drilling rigs, one stepdown telescopic single drilling rig and one coiled tubing drilling rig.

PRESIDENT'S MESSAGE



Our focus this year will be to integrate the new rigs into the fleet and further develop Pantera's standard of care and performance.

I am pleased to present the first Annual Report for Pantera Drilling Income Trust (the "Trust" or "Pantera").

In 2006, Pantera increased net earnings by 54% over the previous year. This increase was due in large measure to our deployment of new rigs in March, October and December (Rig No.'s 7, 8 and 9). We believe the integration of these new rigs into the fleet, coupled with high utilization rates achieved by our existing conventional rigs, enabled us to emerge as one of the most successful new drilling contracting businesses in Canada.

On February 22, 2006, we completed our initial public offering and commenced trading on the Toronto Stock Exchange under the symbol "RIG.UN". The offering consisted of 2,500,000 trust units at a price of \$10.00 per trust unit for gross proceeds of \$25 million. Monthly cash distributions commenced in March at \$0.067 per unit, and remain unchanged today.

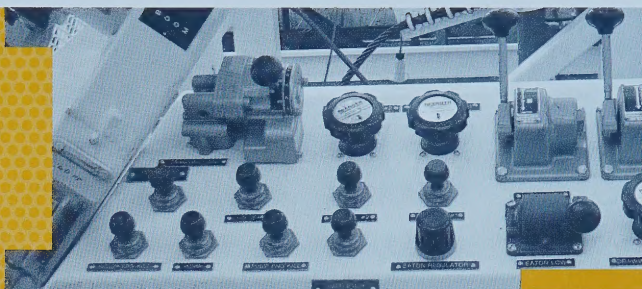
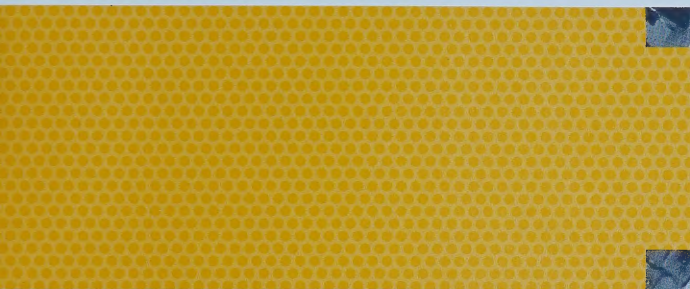
The Trust implemented a distribution reinvestment plan on September 30, 2006. This plan provides eligible unitholders with the opportunity to reinvest their payable cash distributions toward the purchase of additional trust units from treasury at a price equal to 95% of the average market price on the applicable distribution payment date, as defined in the plan.

OUTLOOK FOR 2007

The effort placed on expanding our operations into northern Alberta's fast-growing heavy oil areas has proven to be an excellent decision for Pantera. We have four rigs working exclusively in these regions. As of the start of 2007, Pantera will have four rigs working under term contracts that provide for minimum utilization rates at set prices. We believe this will have a positive effect on both revenue and utilization levels in 2007.

The recent decline in commodity prices, and the federal government's announcement of its intention to change the tax laws for income trusts, have combined to cause many exploration companies to cut budgets and re-evaluate their drilling plans for 2007. However, increasing global demand for oil and slower-than-expected supply growth in non-OPEC countries has tightened the gap between production capacity and demand. Record amounts of natural gas in storage, due largely to the warm winter seasons experienced over the past two years, have held gas prices in check. Continued increases in demand, with a constant decline in deliverability should, in our view, bode well for longer-term gas prices.

Our focus this year will be to integrate the new rigs into the fleet and further develop Pantera's standard of care and performance throughout all of the new crews that have recently joined us. In order to improve the gross margin on existing rigs with minimal risk and reasonable capital cost, the Trust is planning to acquire certain assets utilized on our rigs that are typically obtained from third party suppliers, such as hevi-wate drill pipe.



ACKNOWLEDGEMENTS

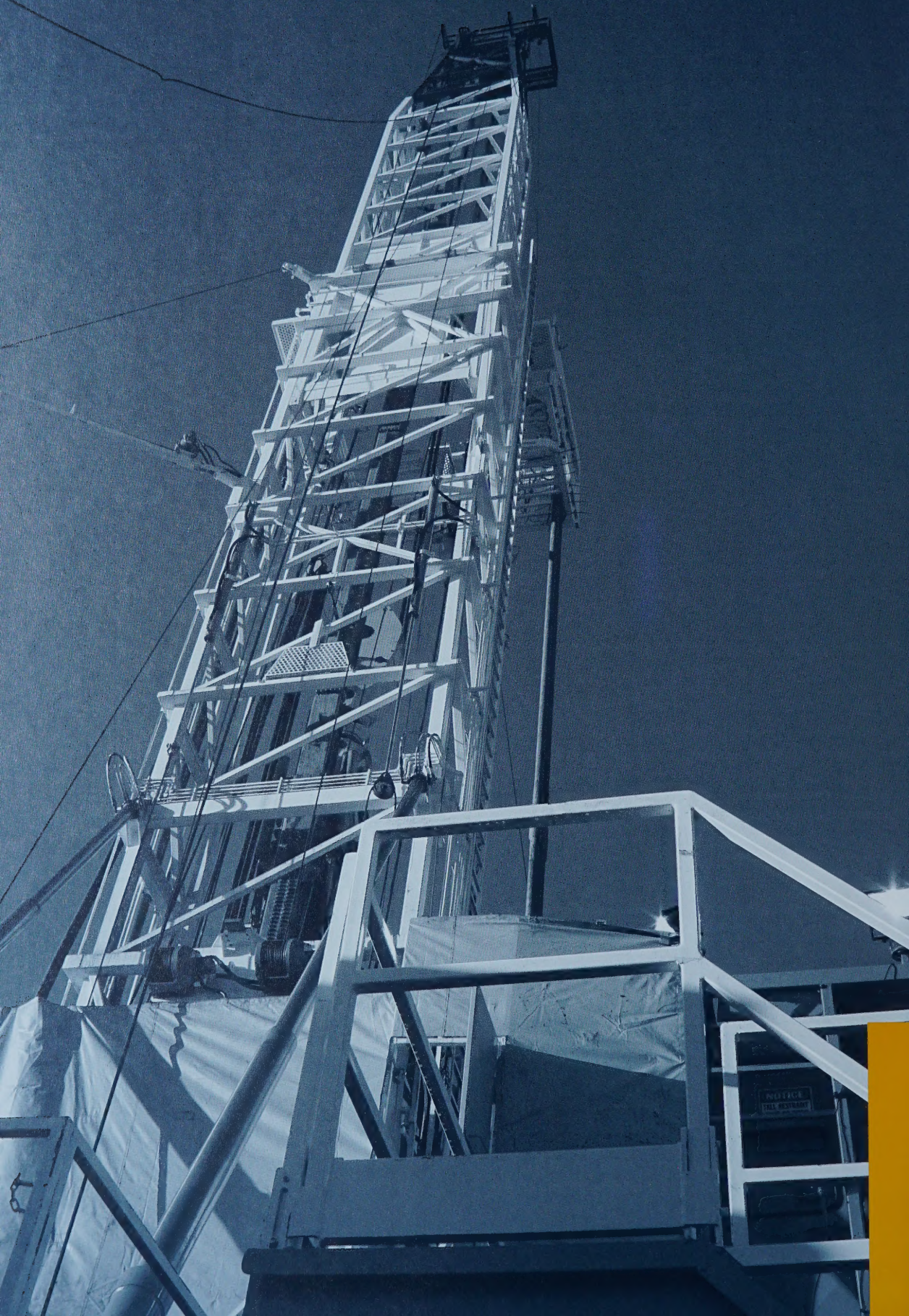
I would like to thank our employees for the unconditional commitment and dedication that they offer every single day. Our rig crews work in harsh and isolated areas and continually rise to the challenge.

I would like to thank our customers for giving us the opportunity to work with them over the past year and I look forward to continuing our successful relationship by providing dedicated employees and reliable equipment in a safe work environment.

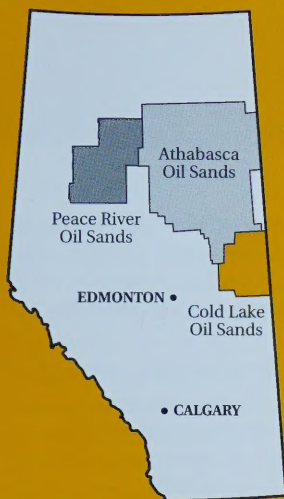
I would also like to thank our Board of Trustees for their guidance and support during the IPO process and in our first year of public reporting. The expertise and leadership shown in the boardroom helped us execute our growth plans while maintaining the highest level of service to our customers.

I am confident in the long-term potential of the Canadian drilling industry and anticipate another busy and successful year for Pantera in 2007.

Terry Rosentreter
PRESIDENT AND CHIEF EXECUTIVE OFFICER
PANTERA DRILLING INCOME TRUST
MARCH 21, 2007



PROFILE OF ALBERTA'S EXPANSIVE OIL SANDS

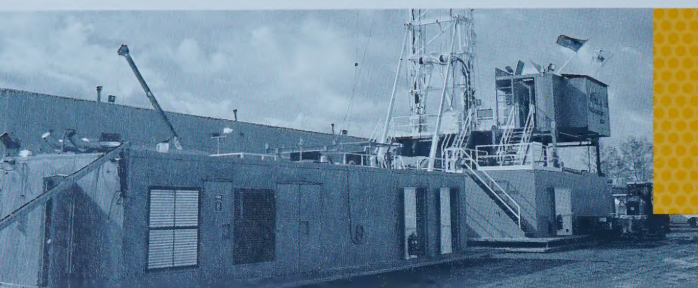


The effort placed on expanding our operations into northern Alberta's fast-growing heavy oil areas has proven to be an excellent decision for Pantera.

Pantera's focus on heavy oil has allowed us to create identity and differentiation in a competitive market.

Pantera was one of the first drilling contractors committed solely to coil drilling. However, a transition began in 2003 with the selling of coil components and subsequent construction of Rig No. 5, Pantera's first telescopic double, and our first rig to drill a horizontal well in the Peace River oil sands area.

Pantera has equipped four of the eight rigs with the ability to drill the heavy oil horizontal wells in the oil sands areas. In the first quarter of 2007, Pantera was operating four of the eighteen rigs drilling horizontal wells in this market area.



HEAVY OIL MARKET IMPACT

In 1999, Pantera was one of the first drilling contractors committed solely to coil drilling. Over the next six years, Pantera drilled more than 1,600 wells and more than 1 million metres of hole in Alberta and Saskatchewan with three coil rigs (Rig No.'s 1, 2, and 3). The coil components of Rig No. 1 were sold in 2003 and the remaining ancillary equipment was used in the construction of Rig No. 5. This was the Trust's first telescopic double and our first rig to drill a horizontal well in the Peace River oil sands area. The program was a success and other operators noticed our achievements.

Larger diameter drill pipe, dual high-capacity triplex mud pumps and increased mud-cleaning capacity are examples of system upgrades specific to this application. Pantera has successfully placed four rigs into this market and continues to expand services in this area. In the first quarter of 2007, Pantera had four rigs dedicated to customers that are drilling horizontal heavy oil wells in an area that stretches from Peace River to the Saskatchewan border near Cold Lake.

Operational efficiency improves when rigs cluster together in a focused area. Crews sharing flights to and from the job site, sharing of third-party services and spare equipment between rigs are other examples of efficiency improvements.

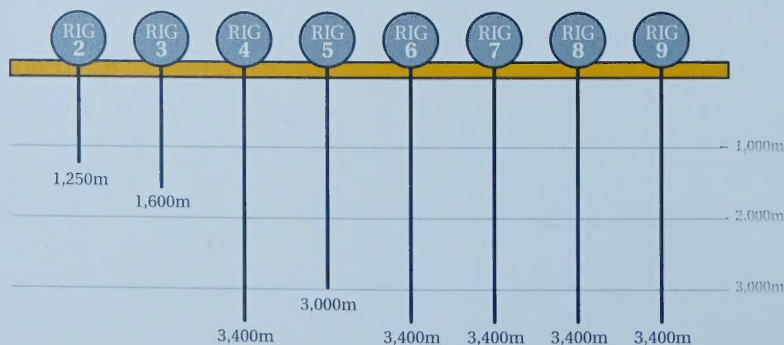
The conventional rigs in Pantera's fleet now dominate the makeup of the rig mix. By year-end, seven of the Trust's eight rigs were conventional, with plans to complete the conversion of the last remaining coil rig to a conventional drilling rig in 2007.

OPERATIONS 2006

The year 2006 started off with all five of our rigs in the field executing their assigned winter drilling programs. The coil rigs were the first to shut down in mid-March, and all of the conventional rigs ran into April before being shut down due to road bans and wet conditions.

Rig No. 6 was the exception. This rig worked straight through break-up, drilling multi-lateral horizontal wells off pad locations. Rig No. 6 is the first of two rigs built for an operator with plans to utilize the rigs to drill horizontal wells into the heavy oil-bearing zones of the Peace River oil sands. In its first full year of operation, Rig No. 6 achieved a record 311 operating days.

PANTERA FLEET COMPOSITION



Pantera has embarked on a program converting the coil rigs into conventional rigs that are suited for all types of wells (gas and oil) that fall within the depth rating of the rig.

When combined with time spent skidding between wells or moving pad to pad, the rig was active for 342 of a possible 365 days, or 94% of the year. Rig No. 6 continues to perform at these levels and the second of the two rigs, Rig No. 9, was delivered in December and is following the same trend.

Pantera's conventional rigs were very active through the summer and fall of 2006, achieving an average rig utilization of 85% in the third quarter and 72% in the fourth quarter. The fourth-quarter utilization was lower due to the shutdown of operations that occurs each year at Christmas.

RIG CONSTRUCTION 2006

Rig No. 7 was built, staffed and deployed in March and drilled one well prior to spring breakup. The rig was mobilized again in May and has operated almost continuously since then. Construction of Rig No. 8 was completed in October and the rig was deployed to its first well in the Virginia Hills area. In November, the rig was relocated to northeastern British Columbia, and will likely remain in B.C. for the duration of its term contract. Rig No. 9 was completed in December and moved to the Peace River area to work alongside Rig No. 6.

The softening of the shallow gas market in mid-2006 caused the Trust's two remaining coil rigs to remain inactive for the last three quarters of the year. In an effort to generate revenue with the Trust's current coil assets, the decision was made to convert Rig No. 3 into a conventional telescopic single drilling rig suited for all types of wells (gas & oil) that fall within the depth rating of the rig. In the summer of 2006, the coil-specific components of Rig No. 3 were sold to partially offset the conversion cost and construction of a new substructure, drawworks, mast, power catwalk, water tank and doghouse. These new components were combined with the existing triplex pump, mud tank, boiler, and combination building and the final rig up was completed in March, 2007. Senior personnel from Rig No. 3 were utilized in the conversion process, and will remain with the rig in its new configuration.



Increased demand for additional rigs similar to the Trust's fleet of doubles was a key factor in the decision to convert Rig No. 4 (previously a lighter capacity range 3 single) to a 3,400 metre capacity stepdown telescopic double identical to the other conventional rigs owned by the Trust. These telescopic doubles have proven to be very reliable and versatile rigs. The efficiencies of running a fleet of rigs that are consistent in rig up and design are evident. The conversion was completed in January 2007 and the rig was mobilized to the Peace River area. It is anticipated that increased rig utilization and lower rig operating expenses will be realized now that the Rig 4 upgrade project is completed.

Rig No. 2 is the last remaining coil drilling rig in the fleet. The Trust believes that the conversion of this rig similar to the Rig No. 3 conversion explained above is appropriate and funding for the project has been allocated in 2007. On completion of these projects, Pantera will have a fleet consisting of six telescopic doubles and two telescopic singles, all of which were constructed or had a significant retrofit in the past three years. Pantera intends to finance its capital expenditures through a combination of funds from operations and debt financing.



ePod

PANTERA DRILLING
RIG-8

PANTERA'S INNOVATIVE ePOD



Government regulators recently challenged the Canadian drilling industry to improve the safety and accessibility of the emergency escape system used for derrickhands working at elevated heights. In response to this, Pantera recently designed and engineered the ePod.

In addition to being an improved escape method, as well as a rescue device for injured workers, the enclosed design of the ePod provides a secondary level of protection. In the event of an emergency, the derrickhand can immediately access the ePod and glide safely to the designated landing area in approximately 15 seconds.

Pantera has demonstrated this innovative new escape device to Canadian health and safety regulators as well as local drilling contractors.



PANTERA'S INNOVATIVE ePod

Historical problems with the standard escape method, known as the *Geronimo*, prompted governments to request industry to investigate the problem and provide alternatives. The Canadian Association of Oilwell Drilling Contractors (CAODC) has worked with industry to implement an improved recommended practice that provides additional safety and security to the worker. All rigs operating in Western Canada will need to be modified to conform to the new regulations at the time of, or before, the next Level IV recertification is completed.

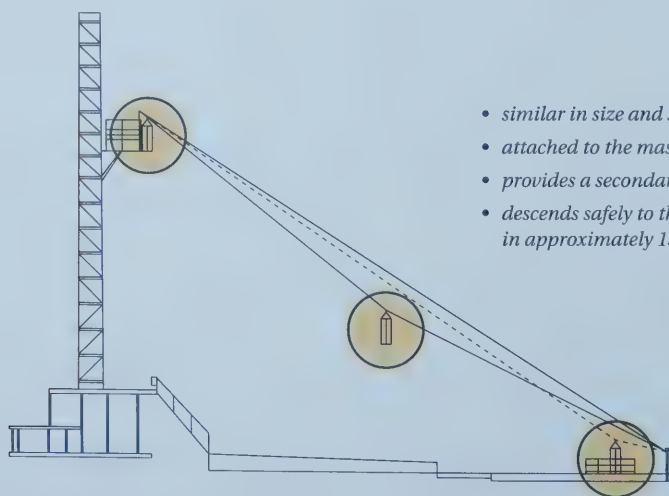
Under the direction of our Safety Manager Reg Masse, Pantera recently engineered and developed an escape pod (or ePod) to provide an emergency escape method for derrickhands working at elevated heights in the mast of a rig.

The ePod is similar in size and shape to a phone booth, and is attached to the mast during drilling operations. Pantera's ePod design provides the worker with a secondary level of protection by surrounding them with an aluminum enclosure. In the event of an

emergency, the derrickhand can immediately access the ePod and glide safely to the ground. The rate of descent is controlled automatically and the worker reaches the designated landing area in approximately 15 seconds. One of the most significant design points is that the worker is protected once he enters the ePod and closes the door. The ePod also could be used as a rescue device to remove an injured person from the mast. Each rig in the fleet, with the exception of the coil rig, has been equipped with an ePod and employees have been trained in the operation and maintenance of this new emergency escape mechanism.

Pantera has demonstrated the ePod to various groups, including the CAODC Health, Safety & Environment Committee, government regulatory bodies from BC, Alberta and Saskatchewan, and several local drilling contractors.

In May, Pantera received CAODC's Safety Leadership Award, in Recognition of the Employees' Outstanding Achievement in Safety for the year 2005. This is the second year in a row that CAODC has honoured Pantera with this award.



- similar in size and shape to a phone booth
- attached to the mast during drilling operations
- provides a secondary level of protection
- descends safely to the designated landing area in approximately 15 seconds



Pantera's safety program is based on the conviction that the well-being and safety of employees is one of our greatest responsibilities and is therefore one of the first considerations in all operations.

SAFETY IN DRILLING OPERATIONS

Safety must be an integral part of every managerial and supervisory position. For this reason, Pantera's rig maintenance programs emphasize safety and rig reliability which creates a safe work environment and fosters crew stability.

Alberta Human Resources and Employment developed the Certificate of Recognition (COR) Occupational Health and Safety Program to provide a method for drilling companies to develop and improve their health and safety programs through both internal and external audits. Pantera has held the COR designation for the past four years and is committed to this program.

Pantera has also implemented several new safety initiatives in an effort to reduce the risk of driving incidents. Crew changes are being executed by air,

and where possible all crew flights being met at the airport by a bus and the crews driven directly to the rig. This eliminates all personal vehicles on location and significantly reduces traffic to and from the rig. Crew vehicles have studded tires, and driver training and education has been provided. Internal bonus programs include a direct link to safe driving, in addition to other safe work requirements.

The goal of Pantera, our managers, employees and contractors is to ensure the health and safety of our employees, and all others who may be affected by our operations. In order to achieve our goal, Pantera continually reviews policies, procedures and systems with the intent of constant improvement. We solicit suggestions and recommendations from all employees as part of this on-going and active process.



Pantera Rig No. 6
"Breaking a connection"



TSX: RIG.UN

The following management's discussion and analysis of the consolidated financial condition and results of operations of Pantera Drilling Income Trust (the "Trust" or "Pantera") for the year ended December 31, 2006 is based on information available to March 21, 2007 and should be read in conjunction with the consolidated financial statements and related notes contained in the audited consolidated financial statements for the years ended December 31, 2006 and 2005. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). All financial results are reported in Canadian dollars.

Additional information relating to the Trust, including its annual information form, can be accessed on the Trust's website at www.panteradrilling.com and under the Trust's profile on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

The Trust is an open-ended, investment trust governed by the laws of the Province of Alberta pursuant to the Deed of Trust. The Trust was established for the purpose of investing in property including the securities of Pantera Drilling Limited Partnership and Pantera Drilling Inc. The beneficiaries of the Trust are the holders of the trust units. The business of Pantera involves the provision of contract drilling services to oil and natural gas exploration and production companies operating in western Canada.

HIGHLIGHTS

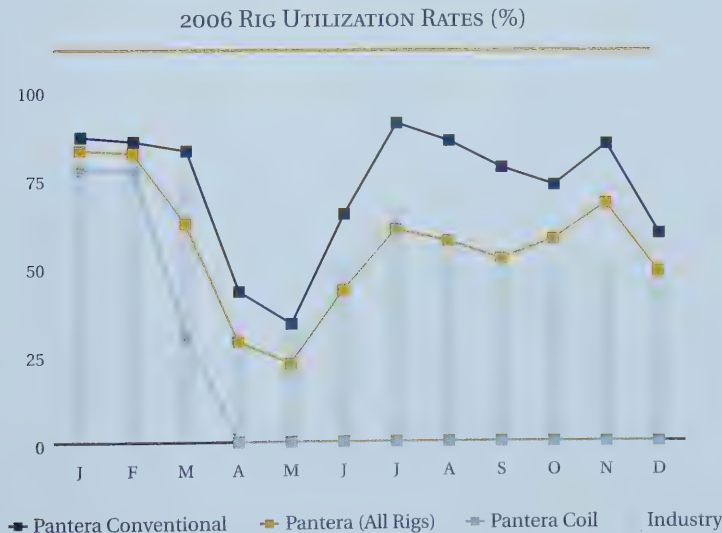
Years ended December 31

Financial	2006	2005	2004
(\$000s, except for units and per unit amounts)			
Revenue	30,911	22,661	12,771
Gross margin ⁽¹⁾	11,661	8,809	3,793
Net earnings	5,963	3,891	850
Per unit (basic and diluted)	1.06	1.18	.27
Funds from operations ⁽¹⁾	7,884	5,451	1,800
Per unit (basic and diluted)	1.40	1.66	.56
Cash distributions declared per unit	.78	—	—
EBITDA ⁽²⁾	8,814	7,359	2,728
Total assets	55,057	31,813	18,733
Total long-term financial liabilities	19,460	675	5,086
Units outstanding (weighted average) ⁽³⁾	5,649,400	3,286,404	3,204,399
Units outstanding (end of period) ⁽³⁾	6,066,365	3,500,000	3,204,399
Operating			
Number of rigs (end of year)			
Conventional	7	3	2
Coil	1	2	2
Total	8	5	4
Number of rigs (weighted average) ⁽⁴⁾	5.6	4.3	4
Operating days	1,099	890	630
Industry utilization average ⁽⁵⁾	55%	59%	53%
Pantera utilization rates ⁽⁴⁾			
Conventional	72%	64%	40%
Coil	17%	49%	46%
Weighted average	54%	57%	43%

- (1) Funds from operations as used in this report represents cash flow from operating activities before changes in non-cash operating working capital. Gross margin represents revenue less operating expenses. Readers are cautioned that funds from operations and gross margin do not have a standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other issuers. However, Pantera does compute funds from operations and gross margin on a consistent basis for each reporting period. Management believes that in addition to net earnings, funds from operations is a useful supplemental measure as it provides an indication of the funds that are available for investing and financing activities, including distributions to unitholders. Management believes gross margin is a useful supplemental measure of operating performance and is particularly relevant to readers within the investment community. Funds from operations has replaced the term cash flow from operations as shown in Pantera's previous filings.
- (2) EBITDA means net earnings before interest, taxes, depreciation and amortization. Readers are cautioned that EBITDA does not have a standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other issuers. However, Pantera does compute EBITDA on a consistent basis for each reporting period. Management believes that, in addition to net earnings, EBITDA is a significant indication of success for Pantera and is particularly relevant to readers within the investment community.
- (3) The units outstanding give effect to the restructuring of Pantera in 2005 and the February 8, 2006 split of units of the Trust on the basis of 10.739754 units for each trust unit of the Trust held immediately prior to the effective time of the split.
- (4) For purposes of calculating utilization rates the number of rigs (weighted average) for Q4, 2006 has been adjusted to reflect the temporary removal of Rigs No. 3 and 4 on October 1, 2006 as they were unavailable for use by Pantera.
- (5) Source: Canadian Association of Oilwell Drilling Contractors (CAODC).

HIGHLIGHTS

- Pantera Drilling Income Trust generated revenue of \$30.9 million for the year ended December 31, 2006, a 36% increase from the \$22.7 million achieved in 2005. Net earnings for the year increased by 54% to \$6.0 million from \$3.9 million in 2005.
- Funds from operations, representing cash flow from operating activities before changes in non-cash operating working capital, increased \$2.4 million or 44% to \$7.9 million in 2006 from \$5.5 million in 2005. The increase was attributed to a larger fleet contributing at improved dayrates.
- The Trust completed construction of three new rigs in the year, deploying Rig No. 7 on March 22nd, Rig No. 8 on October 7th and Rig No. 9 on December 14th. This boosts the Trust's fleet of rigs by 60% for the year, growing from five to eight drilling rigs. Each of these three new rigs are operating for clients under term contracts, similar in nature to the term contracts in place for Pantera's other stepdown telescopic double drilling rigs.
- Pantera's rig utilization for 2006 was 54%, with a breakdown of 72% on the conventional rigs (4-9) and 17% on the coil rigs (2-3). This compares to 55% achieved by the industry in the same year. Pantera's new fleet of doubles achieved a 30% premium to the industry average of 55%. Three of the Trust's five conventional rigs continue to work in the Peace River heavy oil area, and were joined by Rig No. 4, when it was re-deployed in January 2007.
- Rig utilization statistics calculated by Pantera reflect the temporary removal of Rig No. 3 and Rig No. 4 for the fourth quarter of 2006 as they were unavailable for use. The coil unit from Rig No. 3 was sold in the third quarter; however the conversion of the rig was delayed due to the high demand on fabrication facilities at that time. Pantera removed Rig No. 3 from the calculation of utilization statistics on October 1, 2006 once the coil centre piece had been removed from the rig and sold, and it was determined that the replacement components for the new single would not be completed until Q1 2007. Rig No. 4's substructure, mast and catwalk were removed from service in September, 2006. The construction of Rig No. 4's replacement components was not expected to be completed until the first quarter of 2007; therefore Rig No. 4 was removed from the calculation of utilization statistics for the fourth quarter of 2006 as well.



Source: CAODC Statistical Reports

Increased demand for additional rigs similar to the Trust's fleet of doubles was a key factor in the decision to convert Rig No. 4 (previously a lighter capacity range 3 single) to a 3,400 metre capacity stepdown telescopic double identical to the other conventional rigs owned by the Trust. These telescopic doubles have proven to be very reliable and versatile rigs. The efficiencies of running a fleet of rigs that are consistent in rig up and design are evident. The conversion of Rig No. 4 was completed in January 2007 and the rig was mobilized to the Peace River area immediately. It is anticipated that increased rig utilization and lower rig operating expenses will be realized now that the Rig 4 upgrade project is completed.

The softening of the shallow gas market in mid-2006 caused the Trust's two remaining coil rigs to remain inactive for the last three quarters of the year. Coil rigs built during the last few years are capable of drilling with coil or jointed drill pipe, and are drilling and setting surface casing when required. Pantera's coil rigs were built prior to this technology change and are not capable of accepting a top drive. Pre-set surface casing is therefore required.

In an effort to generate revenue with the Trust's current coil assets, the decision was made to convert Rig No. 3 into a conventional telescopic single drilling rig suited for all types of wells (gas & oil) that fall within the depth rating of the rig. In the summer of 2006, the coil-specific components of Rig No. 3 were sold to partially offset the conversion cost and construction of a new substructure, drawworks, mast, power catwalk, water tank and doghouse. These new components were combined with the existing triplex pump, mud tank, boiler, and combination building and the final rig up was completed in March, 2007. Senior personnel from Rig No. 3 were utilized in the conversion process, and will remain with the rig in its new configuration. This rig can now be utilized on any drilling program within its rated depth, and is targeted to be working in the oil producing regions of Lloydminster and Cold Lake in eastern Alberta.

Rig No. 2 is the last remaining coil drilling rig in the fleet. The Trust believes that the conversion of this rig similar to the Rig No. 3 conversion explained above is appropriate and funding for the project has been allocated in 2007.

Pantera's fleet of rigs has grown to what Pantera believes to be one of the most up-to-date fleets in Canada, with seven of the eight rigs either built or having had a significant retrofit in the past 3 years. Following is a summary of the current rig assets owned by the Trust.

Rig No.	Rig Type	Drawworks	Rated Depth (metres)	Construction/Retrofit Completion Date
2	Coil Tubing Single	DD100K	1,250	May 2000
3	Stepdown Telescopic Single	TSM3000	1,600	March 2007
4	Stepdown Telescopic Double	TSM850	3,400	January 2007
5	Stepdown Telescopic Double	TSM7000	3,000	November 2003
6	Stepdown Telescopic Double	TSM850	3,400	September 2005
7	Stepdown Telescopic Double	TSM850	3,400	March 2006
8	Stepdown Telescopic Double	TSM850	3,400	October 2006
9	Stepdown Telescopic Double	TSM850	3,400	December 2006

Six of the eight rigs are virtually identical in size and configuration thereby creating operating efficiencies, simplifying training, reducing inventory requirements and improving maintenance. The Trust currently maintains three complete crews for each of the conventional rigs in the fleet. There has been no turnover at the Rig Manager level for several years and the dedication of our Rig Managers has a positive effect on overall work force stability on the rigs.

The Pantera safety program is based on our conviction that the well being and safety of our employees is one of Pantera's greatest responsibilities and is therefore one of the first considerations in all operations. Pantera's rig maintenance programs emphasize safety and rig reliability. High utilization rates and reliable equipment will foster a safe work environment and crew stability at the rig. Pantera has held its Certificate of Recognition ("COR") for the past four years and is committed to this program. Alberta Human Resources and Employment developed the COR Occupational Health and Safety Program by way of a partnership that provides a method for drilling companies to develop and improve their health and safety programs through both internal and external audits.

In May 2006, Pantera received the Safety Leadership Award "In Recognition of the Employees' Outstanding Achievement in Safety" for the year 2005. This is the second year in a row that the CAODC has honoured Pantera with this award.

On February 22, 2006, the Trust completed its initial public offering and commenced trading on the Toronto Stock Exchange under the symbol "RIG.UN". The offering consisted of 2,500,000 trust units at a price of \$10.00 per trust unit for gross proceeds of \$25 million. The net proceeds from the offering of \$23 million were used to reduce the outstanding principal of Pantera's debt.

With the completion of its initial public offering, the Trust adopted a policy of making monthly cash distributions to unitholders. Since March 2006, the Trust has made monthly distributions to unitholders in the amount of \$0.067 per trust unit. The 2006 total cash distributions declared was \$4.4 million, a distribution of 56% of the funds from operations before changes to non-cash working capital.

The Trust implemented a distribution reinvestment plan (the "Plan") on September 30, 2006. The Plan provides eligible unitholders with the opportunity to reinvest their cash distributions payable toward the purchase of additional trust units from treasury at a price equal to 95% of the average market price on the applicable distribution payment date, as defined in the Plan. Participation in the first three months of the Plan averaged approximately 28% and resulted in the issuance of 66,365 units for net proceeds of \$337,273. Funds reinvested in the Trust through the Plan will be available to fund capital expenditures and reduce debt.

As at December 31, 2006, the Trust had 6,066,365 units outstanding. Subsequent to December 31, 2006, 100,504 trust units were issued for net proceeds of \$515,236 pursuant to the Plan resulting in 6,166,869 total units outstanding as at March 21, 2007. Participation in the Plan in the first three months of 2007 averaged approximately 42%.

On January 30, 2006 the Trust established a new credit facility with its existing lender for a \$3.0 million revolving operating demand loan, a \$25 million 364 day extendible revolving loan facility (interest only, payable monthly) and a \$500,000 demand standby letter of credit.

On December 29, 2006 Pantera extended its credit facility with its existing lender and increased its borrowing capacity from \$28.5 million to \$40.5 million. The credit facility now consists of a \$5 million revolving operating demand loan, a \$35 million committed 364 day extendible revolving loan facility, and a \$500,000 demand standby letter of credit.

OPERATING HIGHLIGHTS

Revenue

Revenue for the year ended December 31, 2006 was \$30.9 million, an increase of \$8.2 million (36%) over the \$22.7 million achieved in 2005. This significant increase in revenue was primarily due to the addition of three conventional rigs, higher rig operating rates and an increased utilization of the six conventional rigs. This increase in revenue was partially offset by the decrease in utilization of Pantera's two coil rigs, from 49% in 2005 to 17% in 2006.

The number of operating days for the year ended December 31, 2006 increased by 23% to 1,099 from 890 in 2005, however on a weighted average basis the number of operating days per rig decreased 6%, from 207 to 196. This decrease in the weighted average number of operating days per rig is primarily due to the inactivity of the two coil rigs. The pad drilling programs and longer well cycles have increased Pantera's conventional rig utilization while providing additional opportunity for higher margin drilling programs.

By the nature of its business, the Trust serves major customers that account for a large portion of revenue by providing exclusive use of one or more of its eight drilling rigs for specified drilling programs. During the years ended December 31, 2006 and 2005 two customers each provided more than 15% of the Trust's revenue; on a combined basis these two customers accounted for total revenue of 49% in 2006 and 43% in 2005.

At December 31, 2006, the Trust had contracts in place with four major customers (December 31, 2005 – zero) that provide a guaranteed minimum number of revenue generating days at a fixed daily revenue amount (adjusted for industry-wide labour and cost increases) for the duration of the contracts with terms ranging from six months to two years. In addition to these four contracts, the Trust has one two-year term contract, held by a customer that is currently in a period of low activity, which has been placed into suspension and will be reviewed again in late 2007. The Trust also has one contract that has fixed rates but does not have a minimum utilization commitment. The rig assigned to this contract achieved 311 operating days in 2006.

Pantera's revenue, cash flow and earnings are substantially dependent upon, and affected by, the level of activity associated with oil and gas exploration and production. Both short-term and long-term trends in oil and gas prices affect the level of such activity. Worldwide military, political and economic events, including initiatives by the Organization of Petroleum Exporting Countries, may affect both the demand for, and the supply of, oil and gas. Weather conditions, governmental regulation, levels of consumer demand, the availability of pipeline capacity, and other factors beyond Pantera's control may also affect the supply of and demand for oil and gas and thus lead to future price volatility.

Management believes that any prolonged reduction in oil and gas prices would depress the level of exploration and production activity, which would likely result in a corresponding decline in the demand for Pantera's services and could have a material adverse effect on revenues, cash flows and profitability. Lower oil and gas prices could also: cause Pantera's customers to seek to terminate, renegotiate or fail to honour contracts; affect the fair market value of Pantera's assets which, in turn, could trigger a writedown for accounting purposes; affect Pantera's ability to retain skilled personnel; and, affect Pantera's ability to obtain access to capital to finance and expand its contract drilling business. Pantera cannot assure that the future level of demand for its services or future conditions in the oil and gas and oilfield services industries will not decline.

Operating Expenses

Operating expenses for the year increased \$5.4 million (39%), from \$13.9 million in 2005 to \$19.3 million in 2006. This increase was the result of the growth in rig fleet, higher rig operating days and increased costs of crew labour and third party charges, and is consistent with the year over year increase in revenue of 36%.

Gross margin (see note 1 on page 14), for the year ended December 31, 2006 was \$11.7 million, an increase of \$2.9 million over the \$8.8 million achieved in 2005.

Pantera includes third party charges in its revenue. This revenue inclusion is offset by the corresponding inclusion of the third party charges in operating expenses. This accounting treatment has no impact on the gross margin amount, however it reduces gross margin as a percentage of revenue. Gross margins expressed without third party charges in revenue and operating expenses for 2006 and 2005 are 45% and 47% respectively. Gross margin expressed with third party charges in revenue and operating expenses for 2006 and 2005 are 38% and 39% respectively.

General and Administrative Expenses

General and administrative expenses ("G&A") for 2006 increased to \$2.9 million from \$1.4 million in 2005. The increase in general and administrative expenses is primarily due to Pantera's change in status to a public entity in 2006, growth in the operations of the Trust, and higher bonus payments for reaching internal targets for the year.

As a percentage of revenue, G&A was 9.4% in 2006 compared to 6.4% in 2005.

Depreciation

Depreciation of property and equipment for the year ended December 31, 2006 was \$2.0 million, an increase of \$400,000 from \$1.6 million for 2005. Depreciation is calculated on the number of drilling days achieved, therefore depreciation expense increases as utilization of each rig and construction costs increase. Certain pieces of equipment were sold in 2006 resulting in a gain on disposal in the amount of \$73,200.

Interest Expense

Interest expense on debt decreased to \$893,000 in 2006 from \$944,000 in 2005. The decrease is a result of the reduction of debt in the first quarter of 2006 by the net proceeds of the public offering offset by the growth in debt during the year to finance capital expenditures. The average bank debt in the year was \$11.5 million, bearing interest at an average rate of 7.2% as compared to \$14 million bearing interest at an average rate of 5.7% in 2005. Interest on the debenture is payable monthly at a bank's prime rate. The Canadian prime bank rate averaged 5.81% in 2006 as compared to 4.42% in 2005. The total debt, including Pantera's operating demand loan, debenture, extendible loan facility and capital leases, at December 31, 2006 was \$19.7 million.

The Trust is exposed to interest rate risk on debt subject to floating interest rates, being the operating demand loan, debenture and extendible loan facility. With the extension of its credit facility on December 29, 2006, Pantera was able to reduce the interest rate to be paid by .25% and will now pay interest at the Trust's option of the bank's prime rate plus .75% or bankers acceptance rate plus 2%.

Income Taxes

The Trust is a taxable entity under the Income Tax Act (Canada) and is taxable only on the income that is not distributed or distributable to the unitholders. For the year ended December 31, 2005 a provision for income taxes in the amount of \$963,900 was made for the income tax payable related to the operations of Pantera prior to the conversion to a trust, in addition to income taxes on the income of the Trust that was not distributed to the unitholders for 2005.

On October 31, 2006, the Minister of Finance announced unexpected changes to the taxation of certain publicly traded income trusts and limited partnerships. On December 21, 2006, the Department of Finance issued draft legislative proposals consistent with the October 31, 2006 announcement. When the changes are substantially enacted Pantera will evaluate the implications of the proposed new tax measures to determine the optimal long-term strategy. There can be no assurance that changes in income tax regulations will not adversely affect unitholders.

Net Earnings

For the year ended December 31, 2006 net earnings totaled \$6.0 million or \$1.06 per unit compared with \$3.9 million or \$1.18 per unit for the year ended December 31, 2005. This increase in net earnings was principally attributable to accumulating 23% more operating days, 1,099 in 2006 as compared with 890 in 2005; and in 2005, earnings were reduced by a provision for income taxes in the amount of \$963,900. On an operating day basis, earnings before taxes decreased 2% to \$5,400 per day in 2006 from \$5,500 per day in 2005.

Summary of Quarterly Results

Financial Highlights	2006				2005			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<i>(\$000s except for units and per unit amounts)</i>								
Revenue	8,486	8,088	4,870	9,467	8,529	5,913	1,727	6,492
Gross margin ⁽¹⁾	3,187	3,101	1,366	4,007	3,600	2,443	275	2,491
Net earnings (loss)	1,799	1,587	147	2,430	1,768	957	(430)	1,597
Per unit (basic and diluted) ⁽²⁾	.30	.26	.02	.53	.52	.29	(.13)	.50
Funds from operations ⁽¹⁾	2,220	2,142	479	3,043	2,303	1,433	(233)	1,948
Per unit (basic and diluted) ⁽²⁾	.37	.36	.08	.67	.70	.43	(.07)	.61
EBITDA ⁽³⁾	2,569	2,251	598	3,396	3,055	2,213	(89)	2,180
Per unit (basic and diluted) ⁽²⁾	.43	.38	.10	.75	.93	.67	(.03)	.68
Capital expenditures	12,421	6,523	3,126	2,206	3,487	3,102	4,513	675
Operating Highlights								
Number of rigs (weighted average) ⁽⁴⁾	5.1	6	6	5.1	5	4.1	4	4
Operating days	267	313	170	349	306	266	74	244
Utilization rate	58%	57%	31%	75%	67%	70%	20%	68%
Industry average ⁽⁵⁾	47%	63%	36%	81%	71%	71%	32%	71%

- (1) Funds from operations as used in this report represents cash flow from operating activities before changes in non-cash operating working capital. Gross margin represents revenue less operating expenses. Readers are cautioned that funds from operations and gross margin do not have a standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other issuers. However, Pantera does compute funds from operations and gross margin on a consistent basis for each reporting period. Management believes that in addition to net earnings, funds from operations is a useful supplemental measure as it provides an indication of the funds that are available for investing and financing activities, including distributions to unitholders. Management believes gross margin is a useful supplemental measure of operating performance and is particularly relevant to readers within the investment community. Funds from operations has replaced the term cash flow from operations as shown in Pantera's previous filings.
- (2) The units outstanding give effect to the restructuring of Pantera in 2005 and the February 8, 2006 split of units of the Trust on the basis of 10.739754 units for each trust unit of the Trust held immediately prior to the effective time of the split.
- (3) EBITDA means net earnings before interest, taxes, depreciation and amortization. Readers are cautioned that EBITDA does not have a standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other issuers. However, Pantera does compute EBITDA on a consistent basis for each reporting period. Management believes that, in addition to net earnings, EBITDA is a significant indication of success for Pantera and is particularly relevant to readers within the investment community.
- (4) For purposes of calculating utilization rates, the number of rigs (weighted average) for Q4, 2006 has been adjusted to reflect the temporary removal of Rigs No. 3 and 4 on October 1, 2006 as they were unavailable for use by Pantera.
- (5) Source: Canadian Association of Oilwell Drilling Contractors (CAODC).

Seasonality of Operations

All operations of the Trust are performed in Western Canada and are dependent on weather conditions. The first quarter is typically the busiest due to the frozen ground conditions that allow easier rig movement and access to drilling locations. The second quarter is the slowest with the arrival of spring break-up; frost comes out of the ground and roads are unable to support the weight of heavy equipment. This period of road bans reduces permitted load weights and restricts access to drilling locations. The third and fourth quarters generally represent more normalized drilling activity levels.

Fourth Quarter Analysis

Drilling activity in the WCSB continued to decline throughout the fourth quarter of 2006 due to the industry's response to weakening commodity prices and the proposed changes to the taxation of income trusts. Industry utilization rates declined 34% from 71% in the fourth quarter 2005 to 47% in the fourth quarter 2006. This is a direct result of 88 new rigs competing in a quarter that drilled about the same number of wells as the previous year, 6,758 wells in the fourth quarter 2006 as compared to 6,759 wells in the fourth quarter 2005. Pantera experienced a decrease in utilization rates, but not as significant as the industry. Pantera's decrease in utilization rates of 13%, from 67% to 58% for the quarter, offset by higher operating day rates, resulted in flat revenue growth in the fourth quarter of 2006 as compared with 2005. Revenue of \$8.5 million was earned in both the fourth quarters of 2006 and 2005.

Operating expenses continue to escalate, particularly the cost of labour, repairs and maintenance, and third party services. In the fourth quarter of 2006, operating expenses were \$5.3 million, compared to \$4.9 million in the fourth quarter of 2005. This resulted in a gross margin of \$3.2 million in the fourth quarter of 2006, a decrease of \$400,000 from \$3.6 million in the fourth quarter of 2005. Net earnings for the three months ended December 31, 2006 and 2005 were \$1.8 million. In the three months ended December 31, 2005, earnings were reduced by a provision for income taxes in the amount of \$439,000.

Liquidity and Capital Resources

<i>As at December 31</i>	2006	2005
<i>(\$000s)</i>		
Working capital deficiency	1,331	23,941
Long term debt	19,460	675

At December 31, 2006, the Trust had a working capital deficiency of \$1.3 million due to the inclusion of rig construction accounts payable in the amount of \$4.9 million. This payable relates to the costs to convert Rig No. 3 from a coil to a conventional single rig and Rig No. 4 from a range 3 single to a telescopic double. In February 2007, the extendible loan facility was drawn on further in the amount of \$4.0 million to partially finance these capital expenditures.

The elimination of the working capital deficiency of \$23.9 million as at December 31, 2005 was partially achieved by applying the net proceeds from the public offering that occurred on February 22, 2006 in the amount of \$23 million.

Cash Provided by Operating Activities

Cash provided by operating activities increased by \$3.3 million for the year ended December 31, 2006 when compared with 2005, to \$7.6 million from \$4.3 million. The increase was primarily due to the increase in net earnings and accounts payable offset by the increase in accounts receivable.

Cash Provided by Financing Activities

Cash provided by financing activities increased by \$8 million in 2006 to \$13.5 million from \$5.5 million in 2005. Financing activities included:

- the public offering of trust units that occurred on February 22, 2006 for net proceeds of \$23 million. The net proceeds were applied to the outstanding principal of debt.
- advances on debt in the amount of \$18.6 million in the year ended December 31, 2006 compared with \$24 million in 2005. \$15 million of the amount advanced in the fourth quarter of 2005 was used to restructure the debt facility with Pantera's existing lender.
- cash distributions paid to unitholders in the amount of \$4.0 million. Distributions in the amount of \$0.067 per trust unit have been declared each month since February 2006.

Cash Used in Investing Activities

Cash used in investing activities was \$19.8 million and \$9.9 million, respectively, in the years ended December 31, 2006 and 2005, an increase of \$9.9 million. Increases were due to greater capital expenditures for the construction of rigs. \$24.3 million in property and equipment additions was recorded in 2006 as compared with \$11.8 million in 2005. Rig No. 7, under construction at December 31, 2005, was deployed on March 22, 2006. Rig No. 8, commenced operations on October 7, 2006 and Rig No. 9, on December 14, 2006. Rigs under construction increased to \$5.7 million at December 31, 2006, compared with \$4.7 million at December 31, 2005, and is comprised of costs to convert Rig No. 3 to a conventional single from a coil rig and Rig No. 4 to a conventional double from a range 3 conventional single. Cash used in investing activities in 2006 was partially offset by the proceeds on the disposal of the coil related components of Rig No. 3 in the amount of \$1.2 million and a string of range 3 drill pipe in the amount of \$250,000.

As at December 31, 2006, the Trust was in compliance with all debt covenants.

The Trust's capital requirements consist of providing funds for the monthly trust distributions and capital expenditures. Sources of funds to meet requirements include cash flow from operating activities, the bank credit facility, equipment financing, term loans and equity markets. Management believes it has adequate cash generating capability, capital resources and access to capital and debt markets to meet its working capital, trust distribution and capital expenditure requirements for the foreseeable future.

During 2006, the Trust declared for distribution 56% of the funds from operations before changes in non-cash working capital. The distribution declared in the current year falls within the approved distribution policy adopted by the Trustees to distribute to unitholders between 55% and 65% of the Trust's funds from operations before changes to non-cash working capital. In determining the amount to distribute consideration is given, but not limited, to Pantera's interest and debt principal repayment obligations, capital requirements to maintain its defined assets, capital investment opportunities, external growth opportunities, the seasonality of Pantera's business, and legislative changes in tax laws by governments in Canada.

The Board of Trustees will continue to be disciplined in determining the distribution level. The risk of generating funds from operations in 2007 less than what was generated in 2006 due to deteriorating industry conditions is mitigated by the fact that Pantera has greater revenue potential due to the 34% increase in the number of rigs from a weighted average of 5.6 in 2006 to an estimated weighted average of 7.5 in 2007. Distributions declared in 2006 were entirely funded through funds from operations as the following table indicates.

Distributions

<i>Years ended December 31</i>	2006	2005
<i>(\$000s except for per unit amounts)</i>		
Cash flow from operating activities	7,566	4,299
Add: Changes in non-cash working capital	318	1,152
Funds from operations ⁽¹⁾	7,884	5,451
Less: Distributions declared	4,429	—
Fund retained for future distributions, capital expenditures, and debt reduction	3,455	5,451
Funds from operations per unit ⁽¹⁾	1.40	1.66
Distributions declared per unit ⁽¹⁾	.78	—
Funds retained per unit ⁽¹⁾	.62	1.66

(1) Readers are cautioned that funds from operations does not have a standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other issuers. However, Pantera does compute funds from operations and the per unit information on a consistent basis for each reporting period. Funds from operations has replaced the term cash flow from operations as shown in Pantera's previous filings.

Commitments and Contractual Obligations

	PAYMENTS DUE BY PERIOD				
	TOTAL	LESS THAN 1 YEAR	1 – 3 YEARS	4 – 5 YEARS	AFTER 5 YEARS
(\$000s)					
Debtenture ⁽¹⁾	675		675		
Capital Lease Obligations	676	192	484		
Operating Leases ⁽²⁾	579	252	252	75	
Total Contractual Obligations	1,930	444	1,411	75	

(1) The Trust's debenture of \$675,000 is due on January 2, 2008. Interest is payable monthly at the bank prime rate. The debenture is secured by a charge over certain drilling rig assets.

(2) The Trust leases office space from a related party under an operating lease agreement. Under the terms of the lease, net annual payments of \$90,000 are required until expiry on October 31, 2010.

At December 31, 2006, Pantera was in the process of converting two rigs at an estimated total cost of \$5 million.

The Trust has an extendible revolving loan facility with an amount outstanding at December 31, 2006 of \$18.3 million. This loan requires interest to be paid monthly with no scheduled principal repayment unless the 364 day extendible revolving credit facility is not extended. The extension date is December 28, 2007. It is management's current intention to extend the credit facility. If not extended, the loan is capped and repayable over the ensuing four year period by quarterly payments of 1/20th of the amount outstanding at the maturity date. These payments would commence three months after the maturity date with the final payment covering the remaining balance due four years from maturity date.

Off Balance Sheet Arrangements

The Trust has lease commitments for its premises and equipment which total \$579,000 over the course of the next four fiscal years. These commitments are outlined in note 13 of the audited December 31, 2006 consolidated financial statements. Other than operating lease commitments relating to its premises and equipment, the Trust has no other off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

Pantera transacted with related parties as follows:

Years ended December 31	2006	2005
(\$000s)		
Accounting related consulting fees paid to a company controlled by an officer	52	36
Training and safety related fees paid to a company of which a trustee is a director	12	25
Rent paid to a company controlled by a trustee	157	26
Reimbursement of expenses by a company controlled by a trustee	—	75

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties. Outstanding balances with respect to the transactions set forth above are:

<i>As at December 31</i>	2006	2005
(\$000s)		
Accounts payable and accrued liabilities	3	27
Prepaid expenses and deposits	13	13
Accounts receivable	–	75

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Trust is accumulated and communicated to the Trust's Chief Executive Officer and Chief Financial Officer as appropriate to allow timely decisions regarding required disclosure.

The Trust's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation of the effectiveness of the Trust's disclosure controls and procedures as of the date of this Management's Discussion and Analysis, that disclosure controls and procedures provide reasonable assurance that material information is made known to them by others within the Trust. Certain weaknesses, however, have been identified and the Trust's Chief Executive Officer and Chief Financial Officer do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

The Chief Executive Officer and Chief Financial Officer of the Trust are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The design of the Trust's internal control over financial reporting was assessed as of the date of this Management's Discussion and Analysis.

The weaknesses in the Trust's internal controls over financial reporting, discussed below, result in a more than remote likelihood that a material misstatement would not be prevented or detected. Management and the board of trustees work to mitigate the risk of a material misstatement in financial reporting; however, there can be no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement. These weaknesses and their related risks are not uncommon in a company of the size of the Trust, because of the limitations of size and number of staff.

Control deficiencies have been identified within the Trust's accounting department and its financial information systems over segregation of duties and user access. Specifically, certain duties within the accounting department were not properly segregated due to the small number of individuals employed in this area. In addition, the Trust identified instances whereby personnel had the ability to initiate transactions or accounting entries within certain financial reporting applications that were not compatible with their other roles and responsibilities. None of the segregation of duty or access control deficiencies has resulted in a misstatement to the financial statements. However, these deficiencies may be considered a material weakness resulting in a more-than-remote likelihood that a material misstatement of the Trust's annual or interim financial statements would not be prevented or detected. As the Trust grows, it plans to expand the number of individuals involved in the accounting function. At the present time, the Chief Executive Officer and Chief Financial Officer oversee all material transactions and related accounting records. In addition, the Audit Committee reviews on a quarterly basis the financial statements and key risks of the Trust and queries management about significant transactions, and there is daily oversight by the senior management of the Trust.

The Trust has determined that many of its information systems are subject to general control deficiencies. Although these have not resulted in a misstatement of the financial statements, when aggregated, these deficiencies may be considered a material weakness in the Trust's control procedures resulting in a more-than remote likelihood that a material misstatement of the Trust's annual or interim financial statements would not be prevented or detected. Specifically, these deficiencies included: reliance on spreadsheets; not well defined and implemented change control procedures; and, not well maintained access controls. The Trust intends to document change management procedures and implement new access control procedures including regular password changes and review of existing access authority levels and personnel to mitigate these risks. In addition, where cost effective, the Trust intends to upgrade its financial applications software.

As required, the Trust records complex and non-routine transactions. These sometimes are extremely technical in nature and require an in-depth understanding of GAAP and income tax legislation. The Trust's accounting staff has only a fair and reasonable knowledge of the rules related to GAAP and income tax and there is a risk that the reporting and the transactions may not be recorded correctly, potentially resulting in material misstatement of the financial statements of the Trust. To address this risk, the Trust consults with its third party expert advisors as needed in connection with the recording and reporting of complex and non-routine transactions. As the Trust grows, it plans to expand the technical competence of the individuals involved in the accounting function.

To address safeguarding of the growing inventory of spare equipment a decision was made in the fourth quarter of 2006 to open a field office with its own secured yard, and to take direct control over these assets that in the past would have been stored in a secured yard maintained by third parties. Pantera's field office in Nisku was opened in January 2007 and is manned by our Field Superintendent and Safety Supervisor.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

The preparation of the consolidated financial statements in accordance with Canadian GAAP requires that certain estimates and judgments be made that affect the reported assets, liabilities, revenue and expenses. These estimates are based on historical experience and management judgment. Anticipating future events cannot be done with certainty and therefore these estimates may change as future events unfold, additional experience is acquired or the Trust's operating environment changes.

Depreciation

The Trust's capital assets are depreciated based upon estimates of their useful lives and salvage values. These estimates may change as more experience is gained or as general market conditions change impacting the value of the capital assets.

Allowance for Doubtful Accounts Receivable

The Trust performs credit evaluations on its customers and grants credit based upon historical, financial and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful accounts, if necessary, is established based upon specific situations and overall industry conditions. Bad debts have been minimal and limited to specific customer circumstances; however, due to the cyclical nature of the oil and gas industry, this credit risk can change suddenly and without notice.

Impairment of Long-Lived Assets

Long-lived assets, which include drilling rigs and associated equipment, comprise the majority of the Trust's assets. The carrying value of these assets is periodically reviewed for impairment or whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Significant, unanticipated changes to these values could require a provision for impairment in the future.

Revenue Recognition

Revenue from the provision of drilling activities and supplies is recognized when services are delivered and collection is reasonably assured.

FINANCIAL INSTRUMENTS

Fair Values

The fair values of the accounts receivable, accounts payable and accrued liabilities, rig construction payables, and distributions payable approximate their carrying values as at December 31, 2006 due to the short-term or otherwise liquid nature of these items. The fair value of the bank loans, excluding the finance loans, approximate their carrying values as they bear interest at floating rates. The fair value of the finance loans approximates carrying value as the rate on the finance contracts is not significantly different from current rates. The fair value of the debenture approximates its carrying value as the terms and conditions of the borrowing arrangement are comparable to market terms and conditions for similar items.

Credit Risk

The Trust's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks.

Interest Rate Risk

The Trust is exposed to interest rate risk on debt subject to floating interest rates.

CHANGES IN ACCOUNTING POLICIES

Management did not change existing accounting policies during the year ended December 31, 2006. Effective January 1, 2007, Pantera will be required to adopt the accounting rules related to the new financial instruments accounting framework, which encompasses three new Canadian Institute of Chartered Accountant ("CICA") Handbook Sections: 3855 "Financial Instruments – Recognition and Measurement", 3865 "Hedges", and 1530 "Comprehensive Income". The new accounting pronouncements that are effective for 2007 determine how reporting entities recognize and measure financial assets, financial liabilities and non-financial derivatives. Pantera has not fully completed its analysis however it does not anticipate these new pronouncements to have a material effect on the Trust's financial statements.

OUTLOOK

The effort placed on expanding drilling operations in northern Alberta's developing heavy oil areas over the past few years has proven to be an excellent decision. The Trust remains focused on maintaining a fleet of rigs that is safe, reliable and efficient. At the commencement of 2007 the Trust has four rigs working exclusively in the oil sands regions and will have five of its eight rigs working under term contracts with dedicated customers at set prices. It is management's opinion that this will have a positive effect on both revenue and utilization levels in 2007.

The combination of the recent decline in commodity prices and the Canadian federal government's announcement of its intention to change the tax laws for income trusts has caused many exploration companies to cut budgets and re-evaluate their drilling plans for 2007. However, increasing global demand for oil and slower than expected supply growth in non-OPEC countries has tightened the gap between production capacity and demand. Record amounts of natural gas in storage, due largely to the warm winter seasons experienced over the past two years has held gas prices in check. Continued increase in demand combined with the constant decline in deliverability should bode well for longer term gas prices.

The Canadian rig fleet reached a total of 862 rigs in 2006, an increase of 88 rigs, or 11%, over 774 rigs as at December 31, 2005. The CAODC has issued their 2007 industry forecast of 19,023 wells, 14% less than the 22,127 wells drilled in 2006. The Petroleum Services Association of Canada forecast calls for 21,000 wells. Further rig additions will occur in 2007 as construction projects are completed, however it is expected that new orders will drop off and the average rig count should remain relatively flat for the remainder of 2007. It is management's view that rig activity levels this summer and fall will be lower than 2006 levels, due primarily to the uncertainty surrounding future pricing of commodities. Drilling activity targeting shallow gas and coal-bed methane will be slower, and it is expected that the surplus of available rigs will have a negative effect on pricing this summer.

Future growth of the Trust will consist of new rig construction and the possible acquisition of other businesses complimentary to the Trust's. The decision to proceed with the construction of each new rig is based on a number of factors which may include obtaining a long term drilling commitment. In order to improve the gross margin on existing rigs with minimal risk and reasonable capital cost the Trust is planning to acquire certain assets utilized on its own rigs that are typically rented by the Trust's customers, such as heavy-duty drill pipe. Pantera intends to finance its 2007 capital expenditures through a combination of funds from operations and debt financing.

FORWARD-LOOKING STATEMENTS

Certain statements included in this discussion constitute forward-looking statements that involve unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of Pantera, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include general economic and business conditions, the ability of Pantera to implement its business strategy, and changes in, or failure to comply with government regulations, especially health, safety and environment laws, regulations and guidelines. Forward-looking statements in this discussion may include, but are not limited to, revenue, commodity prices, rig utilization and availability, capital expenditures and legislative changes. For this purpose, any statements that are contained in this discussion that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements often contain terms such as "may", "will", "should", "anticipate", "expects", "intends" and similar expressions. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements.

NON-GAAP MEASURES

Included in the discussion and analysis are references to terms commonly used in the oil and gas drilling industry such as funds from operations, EBITDA, and gross margin. Funds from operations as used in this report represents cash flow from operating activities before changes in non-cash operating working capital and has replaced the term cash flow from operations as shown in Pantera's previous filings. EBITDA represents earnings before interest, income taxes, depreciation and amortization. Gross margin represents revenue less operating expenses. The Trust's method of calculating funds from operations, EBITDA, and gross margin may differ from others in the industry. Management believes that in addition to net income, these supplemental measures are an indicator of the Trust's performance for on-going operations. These terms are not defined by Canadian GAAP and therefore are referred to as non-GAAP measures.

For Further Information Please Contact:

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PANTERA DRILLING
RIC 7

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

MANAGEMENT'S REPORT TO THE UNITHOLDERS

The consolidated financial statements of Pantera Drilling Income Trust (the "Trust") form the basis for all financial information that appears in this report. The consolidated financial statements of the Trust and all the information in this report are the responsibility of the management of the Trust. The Board of Trustees is responsible for ensuring that management fulfills its financial reporting responsibilities. KPMG LLP, the Trust's auditors, have audited the consolidated financial statements.

Management has prepared the consolidated financial statements according to Canadian generally accepted accounting principles. Under these principles, management has made certain estimates and assumptions that are reflected in the consolidated financial statements and notes. Management believes that these consolidated financial statements fairly present the Trust's financial position, results of operations and cash flows.

Management maintains a system of internal controls designed to provide reasonable assurance that the consolidated financial statements are accurate and complete in all material respects. Management is of the opinion that these internal controls provide reasonable assurance regarding complete and accurate maintenance of accounting records necessary for the preparation of the consolidated financial statements.

The Audit Committee of the Board of Trustees has reviewed the consolidated financial statements and MD&A with management and KPMG, the Trust's auditors. The consolidated financial statements have been approved by the Board of Trustees on the recommendation of the Audit Committee.



Terry Rosentreter
PRESIDENT AND CHIEF EXECUTIVE OFFICER
March 21, 2007



Lorna Pollock
CHIEF FINANCIAL OFFICER
March 21, 2007

AUDITORS' REPORT TO THE UNITHOLDERS

We have audited the consolidated balance sheets of Pantera Drilling Income Trust as at December 31, 2006 and 2005 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Calgary, Canada
March 21, 2007

CONSOLIDATED BALANCE SHEETS

As at December 31

2006

2005

Assets

Current assets

Cash	\$	1,216,861	\$	–
Accounts receivable		7,400,550		6,062,344
Prepaid expenses and deposits		125,350		345,187
		8,742,761		6,407,531

Property and equipment (note 3)

46,314,259	25,405,725
\$ 55,057,020	\$ 31,813,256

Liabilities and Unitholders' Equity

Current liabilities

Operating demand loan (note 4)	\$	–	\$	387,012
Accounts payable and accrued liabilities		4,568,807		2,636,175
Distributions payable (note 7)		406,447		–
Rig construction accounts payable		4,906,890		1,921,542
Income taxes payable		–		1,131,800
Current portion of debt (note 4)		191,764		24,047,206
Debenture (note 5)		–		225,000
		10,073,908		30,348,735

Debenture (note 5)

675,000	675,000
---------	---------

Debt (note 4)

18,784,554	–
29,533,462	31,023,735

Unitholders' equity

Unitholders' capital (note 6)	23,398,104	198,400
Retained earnings	2,125,454	591,121
	25,523,558	789,521

Contingency (note 12)

Commitment (note 13)

\$ 55,057,020	\$ 31,813,256
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See accompanying notes to consolidated financial statements.

On behalf of the Board:



Lorne Gartner, TRUSTEE



Terry Rosentreter, TRUSTEE

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

Years ended December 31

	2006	2005
Revenue	\$ 30,911,057	\$ 22,661,097
Expenses		
Operating	19,250,147	13,851,726
Depreciation	1,994,134	1,559,907
General and administrative (<i>note 8</i>)	2,920,568	1,449,805
Interest – short-term	324,820	911,453
– long-term	568,360	32,914
Gain on disposal of property and equipment	(73,200)	–
	24,984,829	17,805,805
Earnings before taxes	5,926,228	4,855,292
Income tax expense (benefit) – current (<i>note 10</i>)	(36,714)	963,900
Net earnings for the year	5,962,942	3,891,392
Retained earnings (deficit), beginning of year	591,121	(3,092,377)
Shares purchased and returned to treasury	–	(39,994)
Refundable taxes	–	(167,900)
Distributions declared (<i>note 7</i>)	(4,428,609)	–
Retained earnings, end of year	\$ 2,125,454	\$ 591,121
Net earnings per unit-basic and diluted (<i>note 6</i>)	\$ 1.06	\$ 1.18

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>Years ended December 31</i>	2006	2005
Cash provided by (used in):		
Operating		
Net earnings for the year	\$ 5,962,942	\$ 3,891,392
Items not involving cash:		
Depreciation	1,994,134	1,559,907
Gain on disposal of property and equipment	(73,200)	—
	7,883,876	5,451,299
Changes in non-cash operating working capital (<i>note 9</i>)	(317,537)	(1,151,926)
	\$ 7,566,339	\$ 4,299,373
Financing		
Increase (decrease) in operating demand loan	(387,012)	—
Advances on debt	18,575,916	24,022,657
Principal payments on debt	(23,646,804)	(14,497,836)
Principal payments on loan	—	(4,186,000)
Repayment of debenture	(225,000)	—
Issue of units	25,000,000	198,305
Unit issue costs	(2,137,569)	—
Distributions paid to unitholders	(4,091,336)	—
Change in non-cash financing working capital (<i>note 9</i>)	406,447	—
	\$ 13,494,642	\$ 5,537,126
Investing		
Property and equipment additions	(24,276,268)	(11,776,559)
Proceeds on disposal of equipment	1,446,800	—
Repurchase of shares	—	(40,000)
Change in non-cash investing working capital (<i>note 9</i>)	2,985,348	1,921,542
	\$ (19,844,120)	\$ (9,895,017)
Increase (decrease) in cash	1,216,861	(58,518)
Cash, beginning of period	—	58,518
Cash, end of period	\$ 1,216,861	\$ —
Interest paid	\$ 918,181	\$ 911,453
Taxes paid	\$ 1,095,086	\$ —

See accompanying notes to consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 STRUCTURE OF THE TRUST

Pantera Drilling Income Trust (the "Trust") is an unincorporated open-ended limited purpose mutual fund trust established under and governed by the laws of the Province of Alberta pursuant to the Declaration of Trust dated June 9, 2005. The Trust was established for the purpose of investing in property including the securities of Pantera Drilling Limited Partnership and Pantera Drilling Inc. The beneficiaries of the Trust are the holders of the trust units.

The Trust pays monthly cash distributions to its unitholders. These distributions represent all cash received from the Trust's subsidiaries, less cash amounts required for expenses and other obligations of the Trust, cash redemptions of units, any tax liability and certain other amounts. The Board of Trustees has the discretion to determine the extent of the distributions.

2 SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

a] Principles of Consolidation:

As at December 31, 2006 and 2005 the consolidated financial statements include the accounts of the Trust and its subsidiaries, all of which are wholly-owned.

b] Property and Equipment:

Property and equipment are stated at cost less accumulated depreciation. Coil tubing rigs are depreciated using the unit-of-production method based on 2,000 drilling days with no salvage value and conventional drilling rigs are depreciated over 3,650 drilling days with a 20% salvage value. Office furniture is depreciated on the straight-line basis over 4 years and computer equipment is depreciated on the straight-line basis over 3 years. Loaders are depreciated on a straight-line basis at 30% per year.

c] Long-lived Assets:

Long-lived assets, which include drilling rigs and associated equipment, comprise the majority of the Trust's assets. The carrying value of these assets is periodically reviewed for impairment or whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Significant, unanticipated changes to these values could require a provision for impairment in the future.

d] Income Taxes:

The Trust is a taxable entity under the Income Tax Act (Canada) and is taxable only on the income that is not distributed or distributable to the unitholders. As both the Trust and its trust subsidiaries distribute all of their taxable income to their respective unitholders pursuant to the requirements of their trust indentures, neither the Trust nor its trust subsidiaries make provisions for future income taxes.

The Trust and its corporate subsidiaries follow the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined on differences between financial reporting and income tax basis of assets and liabilities, using income tax rates in effect on the balance sheet date. The effect of a change in rates on future income tax liabilities and assets is recognized in the period that the change occurs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

e] Revenue Recognition:

Revenue from the provision of drilling activities and supplies is recognized when services are delivered and collection is reasonably assured.

f] Per Unit Data:

The Trust uses the treasury stock method in the determination of diluted earnings per unit amounts. Under this method, the diluted weighted average number of units is calculated on the basis that the proceeds from the exercise of outstanding in the money options are used to purchase trust units at their average market price for the period. Earnings per unit are calculated on the weighted average number of units outstanding during the year.

3 PROPERTY AND EQUIPMENT

	DECEMBER 31, 2006		
	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE
Drilling equipment and loaders	\$ 47,121,412	\$ 6,509,079	\$ 40,612,333
Rigs under construction	5,654,229	—	5,654,229
Office and computer equipment	124,988	77,291	47,697
	<u>\$ 52,900,629</u>	<u>\$ 6,586,370</u>	<u>\$ 46,314,259</u>

	DECEMBER 31, 2005		
	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE
Drilling equipment and loaders	\$ 25,663,864	\$ 4,982,204	\$ 20,681,660
Rigs under construction	4,678,411	—	4,678,411
Office and computer equipment	109,140	63,486	45,654
	<u>\$ 30,451,415</u>	<u>\$ 5,045,690</u>	<u>\$ 25,405,725</u>

Rigs under construction will not be subject to depreciation until construction is complete and they are available for use.

4 DEBT

	DECEMBER 31, 2006	DECEMBER 31, 2005
Operating demand revolving loan	\$ —	\$ 387,012
Extendible revolving loan facility	18,300,000	—
Non-revolving demand loans	—	23,721,516
Other equipment and vehicle finance loans	676,318	325,690
	<u>\$ 18,976,318</u>	<u>\$ 24,434,218</u>
Less current portion	191,764	24,434,218
	<u>\$ 18,784,554</u>	<u>\$ —</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

The Trust has available an operating demand revolving loan facility of \$5,000,000 (December 31, 2005 – \$3,000,000), a 364 day extendible revolving loan facility of \$35,000,000, and a letter of credit facility of \$500,000. These loans require interest to be paid monthly with no scheduled principal repayment unless the 364 day extendible revolving credit facility is not extended. The extension date is December 28, 2007 (the “maturity date”). If not extended, the loan is capped and repayable over the ensuing 4 year period by quarterly payments of 1/20th of the amount outstanding at the maturity date with the final payment covering the remaining balance due 4 years from maturity date. These payments would commence 3 months after the maturity date. Interest on both loan facilities is at the Trust’s option of the bank’s prime rate plus 0.75% per annum or banker’s acceptance rate plus 2.0% per annum. The effective rate at December 31, 2006 was 6.75%. The loan facilities are secured by a General Security Agreement over all of the assets of the Trust.

The other equipment finance loans bear interest at rates ranging between 5.85% and 6.19% and are repayable in monthly installments of \$17,811 with a final payment of \$108,000 due in 2008 and \$151,024 due in 2009. The vehicle finance loan is repayable in monthly installments of \$936 and matures in November 2007. The loans are secured by the related leased assets with a net book value of approximately \$751,000 (December 31, 2005 – \$361,000) as at December 31, 2006.

Pantera’s estimated scheduled principal repayments for other equipment and vehicle finance loans are as follows:

2007	\$	191,764
2008		262,800
2009		221,754
	\$	676,318

5 DEBENTURE

The debenture is due on January 2, 2008. Interest is payable monthly at a bank’s prime rate. The debenture is secured by a charge over certain drilling rig assets.

6 UNITHOLDERS’ CAPITAL

- a) The Trust is authorized to issue an unlimited number of trust units. Each trust unit is transferable, and redeemable on demand, at the option of the unitholder, carries the right to one vote, and represents an equal undivided beneficial interest in any distributions from the Trust and in the net assets of the Trust in the event of termination or winding-up of the Trust. Units are redeemable at any time on demand at a price equal to the lesser of 90% of the market price of the Trust units during the 10 day period ending on the date before the redemption date or 100% of the market price of the Trust units on the redemption date. Unless waived by the Trustees, if the total amount payable by the Trust in respect of all Trust units tendered for redemption in a month exceeds \$50,000, the Trustees have the right to issue an unsecured promissory note of the Commercial Trust in an amount that represents the market value of Trust units surrendered.
- b) Issued:
- The following gives affect to the restructuring of the Trust in 2005 from a corporation to a trust and the February 8, 2006 split of units of the Trust on the basis of 10.739754 units for each trust unit of the Trust held immediately prior to the effective time of the split. Effective immediately following the split, 3,500,000 units were outstanding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

	NUMBER	AMOUNT
Pantera Drilling Inc.:		
Balance, December 31, 2004	3,204,399	\$ 100
Issue of 132,181 common shares	132,181	80,000
Exchange of shares for units	(3,304,536)	—
Balance, December 31, 2005	32,044	80,100
The Trust:		
Issue of 195,464 units	195,464	118,300
Issue of 3,304,536 units in exchange for 3,304,536 outstanding common shares of Pantera	3,304,536	—
Balance, December 31, 2005	3,500,000	198,400
Units issued pursuant to initial public offering	2,500,000	25,000,000
Unit issue costs	—	(2,137,569)
Units issued pursuant to distribution reinvestment plan	66,365	337,273
Balance, December 31, 2006	6,066,365	\$ 23,398,104

c] The numerators and denominators used in the calculation of the basic and diluted net earnings per unit are as follows:

	2006	2005
Numerators:		
Net earnings for the year	\$ 5,962,942	\$ 3,891,392
Denominators:		
Weighted average number of units outstanding for the year	5,649,400	3,286,404

d] Distribution Reinvestment Plan:

The Trust implemented a distribution reinvestment plan (the "Plan") on September 30, 2006. The Plan provides eligible unitholders with the opportunity to reinvest their cash distributions payable towards the purchase of additional units from treasury at a price equal to 95 percent of the average market price on the applicable distribution payment date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

7 DISTRIBUTIONS TO UNITHOLDERS

	\$/UNIT	AMOUNT
February 2006	0.067	\$ 402,000
March 2006	0.067	402,000
April 2006	0.067	402,000
May 2006	0.067	402,000
June 2006	0.067	402,000
July 2006	0.067	402,000
August 2006	0.067	402,000
September 2006	0.067	402,000
October 2006	0.067	402,052
November 2006	0.067	404,110
December 2006 (paid in January 2007)	0.067	406,447
Balance, December 31, 2006		\$ 4,428,609

8 RELATED PARTY TRANSACTIONS

	2006	2005
Accounting related consulting fees paid to a company controlled by an officer	\$ 52,400	\$ 35,625
Training and safety related fees paid to a company of which a trustee is a director	\$ 12,308	\$ 25,066
Rent paid to a company controlled by a trustee	\$ 157,227	\$ 25,832
Reimbursement of expenses by a company controlled by a trustee	\$ —	\$ 75,000

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties. Outstanding balances are:

	DECEMBER 31, 2006	DECEMBER 31, 2005
Accounts payable and accrued liabilities	\$ 3,825	\$ 27,285
Prepaid expenses and deposits	\$ 12,916	\$ 12,916
Accounts receivable	\$ —	\$ 75,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

9 CHANGES IN NON-CASH WORKING CAPITAL

	2006	2005
Accounts receivable	\$ (1,338,206)	\$ (2,630,025)
Prepaid expenses and deposits	219,837	(292,054)
Accounts payable and accrued liabilities	1,932,632	806,253
Income taxes payable	(1,131,800)	963,900
Distributions payable	406,447	–
Rig construction accounts payable	2,985,348	1,921,542
	\$ 3,074,258	\$ 769,616

Changes in non-cash working capital are categorized as follows:

	2006	2005
Changes in non-cash operating working capital	\$ (317,537)	\$ (1,151,926)
Change in non-cash financing working capital	406,447	–
Change in non-cash investing working capital	2,985,348	1,921,542
	\$ 3,074,258	\$ 769,616

10 INCOME TAXES

The provision for income tax differs from the result that would have been obtained by applying the combined federal and provincial income tax rates to earnings before taxes for the following reasons:

	2006	2005
Earnings before taxes	\$ 5,926,228	\$ 4,855,292
Income of the Trust subject to tax in the hands of the unitholders, not the Trust	(4,428,609)	–
Income before taxes of subsidiaries	\$ 1,497,619	\$ 4,855,292
Combined federal and provincial income tax rate	39%	39.31%
Computed income tax at statutory rates	\$ 584,000	\$ 1,908,700
Adjustments to income for income tax purposes	(560,700)	2,538,500
Utilization of previously unrecognized tax losses	–	(2,373,400)
Non-deductible expenses	5,200	20,100
Non-taxable gain on disposal of property and equipment	(28,500)	–
Refundable dividend tax on hand	–	(167,900)
Change in valuation allowance	–	(962,100)
Adjustment relating to prior year's taxes	(36,714)	–
	\$ (36,714)	\$ 963,900

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

At December 31, 2006 the accounting basis for property and equipment exceeds the tax basis by an amount in excess of \$120,000. Other tax balances including financing and underwriting costs exceed their respective book values by an amount in excess of \$1.7 million.

No recognition of these differences has been recorded in these financial statements because all taxable income earned by the Trust is to be allocated to the unitholders and subject to tax in the hands of the unitholders, not the Trust.

During the year ended December 31, 2005, a provision for income taxes was recorded for current income taxes related to the operations of the Trust prior to the conversion to a trust, in addition to income taxes on the income of the Trust that will not be distributed to the unitholders for 2005.

11 FINANCIAL INSTRUMENTS

a) Fair Values

The fair values of the accounts receivable, accounts payable and accrued liabilities, rig construction payables, and distributions payable approximate their carrying values as at December 31, 2006 due to their short-term to maturity or otherwise liquid nature. The fair value of the bank loans, excluding the finance loans, approximate their carrying values as they bear interest at floating rates. The fair value of the finance loans approximate carrying value as the rate on the finance contracts is not significantly different from current rates. The fair value of the debenture approximates its carrying value as the terms and conditions of the borrowing arrangement are comparable to market terms and conditions for similar items.

b) Credit Risk

The Trust's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks. The Trust performs credit evaluations on its customers and grants credit based upon historical, financial and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful accounts, if necessary, is established based upon specific situations and overall industry conditions. Bad debts have been minimal and limited to specific customer circumstances; however, due to the cyclical nature of the oil and gas industry, this credit risk can change suddenly and without notice.

c) Interest Rate Risk

The Trust is exposed to interest rate risk on debt subject to floating interest rates.

12 CONTINGENCY

A third party claim for indemnity has been filed against Pantera in connection with a main action in the approximate amount of \$1.4 million. A statement of defence has been filed effective March 15, 2007. The result of this action is not determinable and consequently, no provision has been recorded in these consolidated financial statements. Provision, if any, will be recorded in the period of determination.

13 COMMITMENT

The Trust has operating lease agreements on office space and several leased vehicles. Payments required in each of the next five years are as follows:

2007	\$ 252,025
2008	161,722
2009	90,000
2010	75,000
2011	—

14 SIGNIFICANT CUSTOMERS

By the nature of its business, the Trust serves major customers that account for a large portion of revenue by providing exclusive use of one or more of its eight drilling rigs for specified drilling programs. During the year ended December 31, 2006 and 2005 two customers each provided more than 15 % of the Trust's revenue; on a combined basis they accounted for 49 % (December 31, 2005 – 43%), respectively, of total revenue.

At December 31, 2006 the Trust had contracts in place with four major customers (December 31, 2005 – zero) that provide a guaranteed minimum number of revenue generating days at a fixed daily revenue amount (adjusted for industry-wide labour and cost increases) for the duration of the contracts with terms ranging from six months to two years. In management's assessment, the future viability of the Trust is not dependent upon any one of these major customers.

15 COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the current year's presentation. Such reclassification did not impact previously reported net earnings or retained earnings.

TRUST INFORMATION

Board Of Trustees

Ronald P. Mathison
CHAIRMAN OF THE BOARD

Lorne Gartner
CHAIRMAN – AUDIT COMMITTEE

Dennis G. Miller
CHAIRMAN – GOVERNANCE AND
COMPENSATION COMMITTEE

Robert O'Callaghan

Terry Rosentreter

Management Team

Terry Rosentreter
PRESIDENT & CHIEF EXECUTIVE OFFICER

Lorna Pollock
CHIEF FINANCIAL OFFICER

Gregory Fox
CONTROLLER

Chris Gnyra
CONTRACTS MANAGER

Reg Masse
SAFETY MANAGER

Warren McCutchan
OPERATIONS MANAGER

Auditors

KPMG LLP
CALGARY, ALBERTA

Legal Counsel

Bennett Jones LLP
CALGARY, ALBERTA

Bankers

HSBC Bank of Canada
CALGARY, ALBERTA

Registrar And Transfer Agent

Valiant Trust Company
CALGARY, ALBERTA

Stock Exchange Listing

Toronto Stock Exchange
SYMBOL: RIG.UN

Website

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Email: info@panteradrilling.com

Annual General Meeting

May 8, 2007 at 1:00 p.m.
Metropolitan Conference Centre,
Royal Room
333 – 4 Avenue SW
Calgary, Alberta



Pantera Drilling Income Trust

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